

BEFORE THE COMMUNITY DEVELOPMENT DIVISION
AND THE BUSINESS RESOURCES DIVISION
DEPARTMENT OF COMMERCE
STATE OF MONTANA

In the matter of the adoption of a new) NOTICE OF ADOPTION
rule pertaining to the administration of)
the 2006-2007 Federal Community)
Development Block Grant (CDBG))
Program)

TO: All Concerned Persons

1. On November 10, 2005, the Department of Commerce published MAR Notice No. 8-94-51 regarding the public hearing on the proposed adoption of a rule concerning the administration of the 2006-2007 Federal Community Development Block Grant (CDBG) Program at page 2133 of the 2005 Montana Administrative Register, Issue No. 21.

2. The department has adopted the new rule (ARM 8.94.3722) as proposed. However, the maximum ceiling for housing and public facilities grants will be set at \$450,000 rather than \$400,000 as proposed in the CDBG Application Guidelines. This is not a change to rule language. See comment and response no. 3.

3. The department has thoroughly considered all comments received. The comments received and the department's response to each follows:

Comment No. 1: Two comments were received in opposition to the proposal to allow the State CDBG Program to fund county applications submitted on behalf of tribal utility authorities. The program proposed that state CDBG funds could be awarded to counties that applied on behalf of tribal utility authorities to assist tribal communities, providing all other federal and state CDBG requirements are met. The comments pointed out that the tribal utility authorities could access the Indian CDBG Program rather than seeking assistance from the State CDBG Program.

Response: Tribal utility authorities can access the Indian CDBG Program; however, Indian CDBG funds are extremely limited. Many more requests for assistance are received than are funds available. The Rocky Mountain region of the HUD Indian CDBG Program serves 32 reservations located in seven states. For federal fiscal year (FFY) 2005, HUD received \$9,175,317 in Indian CDBG funds for the region and funded 12 projects out of 22 requests. For FFY 2006, funding was reduced approximately 14% to \$7,917,788. As a result, the department does not believe that any changes are necessary.

Comment No. 2: A comment was received that the allocation between housing and public facility projects should remain at the allocation level for federal fiscal year (FFY) 2006, which was 38% for housing projects and 62% for public facility projects.

The commenter disagreed with the method of allocation using an average based on the number of applications received in each category during the last two years.

Response: The CDBG Program has based the funding allocation for the housing and public facility categories on the demand for the two categories for the previous two years since 1984. Using a two-year average adjusts for any variability in the demand for CDBG public facilities funding that may be associated with the biennial cycle of the state's legislatively approved infrastructure funding programs: the Department of Natural Resources and Conservation (DNRC), Renewable Resources Grant and Loan Program (RRGL), and the department's Treasure State Endowment Program (TSEP). In this way, the funding reserve for each category can respond to changing relative demand for CDBG housing and public facilities grants over time. Through this method, the amounts allocated between the two categories change based upon actual past demand. As a result, the department does not believe that any changes are necessary.

Comment No. 3: A comment was received which opposed decreasing the maximum CDBG grant ceiling from \$500,000 to \$400,000.

Response: Reducing the maximum grant ceiling for CDBG Housing and Public Facility projects will allow the program to continue to fund roughly the same number of projects annually in the face of projected cuts in funding for the CDBG Program. In FFY 2005, the program was cut approximately 5%. Moreover, in FFY 2006, the program was cut approximately 10%. If the State CDBG Program is to continue to fund roughly the same number of communities, it is necessary to reduce the funding ceiling so that more projects can be funded. The department does, however, understand the nature and importance of the comment. Therefore, the CDBG program will set the maximum ceiling for housing and public facilities grants at \$450,000 rather than \$400,000 as proposed.

Comment No. 4: One comment stated that Capital Improvement Programs (CIPs) make sense in cities and towns with populations of 3,000 or more, but make little sense in smaller communities. Furthermore, the commenter stated that it should not be necessary to require Preliminary Engineering Reports (PERs) or Preliminary Architectural Reports (PARs) as part of submitting a grant application for CDBG funds.

Response: The department agrees with regard to CIPs. The CDBG Program for FFY 2007 will drop the requirement for grant recipients to prepare a CIP; however, applicants will be encouraged to complete a comprehensive CIP to create more effective long-term planning for the construction, maintenance, and financing of local public facility projects. Even smaller communities, including those that are experiencing a decline in population, should be encouraged to have a plan to provide cost efficient public facilities and services for their population. As an incentive to encourage local governments to prepare CIPs, funds budgeted in a CDBG application for completion of a CIP (up to \$25,000) will not be included in the scoring of benefit to low and moderate-income persons. The department does not

agree with the comment on PERs and PARs. The department long found that the preparation of the PER or the PAR establishes a firm foundation documenting the need for a project from the standpoint of public health and safety, as well as the adequacy of the proposed technical design. As a result, the department does not believe that any changes are necessary in this area.

COMMUNITY DEVELOPMENT DIVISION
BUSINESS RESOURCES DIVISION
DEPARTMENT OF COMMERCE

By: /s/ ANTHONY J. PREITE
ANTHONY J. PREITE, DIRECTOR
DEPARTMENT OF COMMERCE

By: /s/ G. MARTIN TUTTLE
G. MARTIN TUTTLE, RULE REVIEWER

Certified to the Secretary of State March 27, 2006